Statement
By
Secretary of Agriculture Bob Bergland
Before
Senate Committee on the Budget
United States Senate
March 9, 1979

Mr. Chairman, members of this Committee, I appreciate the opportunity to appear before you today to discuss the President's 1980 Budget for the Department of Agriculture.

Before I begin discussing the Budget, let me touch upon our 1978 experience and our 1979 and 1980 assumptions for the food and agricultural economy. The income situation for U. S. farmers has improved substantially in the past year from the depressed levels of 1976 and 1977. But we recognize, as you do, that many producers are still in considerable financial trouble. More specifically:

. Farm prices are higher for almost every commodity, but the sharpest increases are due to the turnaround in the livestock sector.

. The current estimate of net farm income for 1978 before inventory adjustment is $28.1 billion, compared with $20.1 billion for 1977.

-- Cash receipts from marketings were up nearly $14 billion, with a $10 billion increase in livestock and products.

-- Government payments increased $1 billion.

-- Production expenses were up nearly $8 billion from the 1977 level.

. Net farm income is expected to rise again in 1979, to about $30 billion (plus or minus $2 billion).

. Farm debt rose $17 billion during 1978 to $136 billion, but the debt-to-asset ratio increased only slightly--from 16.8 to 17.1--and net equity increased about $73 billion to $662 billion.

. The value of all agricultural exports was a record $27.3 billion in FY 1978, and net exports on the agricultural account was a record $13.4 billion. The value of exports may reach $30 billion in FY 1979, and net exports are also expected to set another record at about $15 billion.

. Food prices were 10.5% higher in 1978 than in 1977, but a smaller 6-10% gain (8.5% most likely) is expected for 1979.

We have developed a lean and hard Budget for FY 1980.

. Our overall program level is proposed at $43 billion, down from $47 billion. USDA's budget authority is proposed to decline from $23.7 to $20.5 billion and outlays are projected to decline from $20.2 to $18.4 billion. Of this $18.4 billion in outlays, 72%, or $13.2 billion, represent uncontrollable costs associated with programs that are strictly governed by law, while the balance ($5.2 billion) represents those programs in which we do have some discretion.

. The farm programs, emergency loan programs and domestic food assistance programs are entitlement programs. Those who establish eligibility for these programs are entitled to the program benefits. Expenditures for farm and emergency

programs depend mainly upon the weather, while food assistance program costs depend mainly upon the rate of food price inflation and unemployment.

. Our "best guesses" have farm and emergency funds declining for 1980 and food assistance program outlays rising.

-- Very good weather will mean higher outlays (up to $6 billion) for the farm programs than budgeted; bad weather will mean lower outlays (receipts of up to $1 billion) for farm programs, but higher outlays for emergency programs. We generally have an idea what demand will be for the next year, but have no idea regarding the supply due to varying weather conditions. Our estimates are based upon "educated guesses" of domestic and foreign demand and assumptions concerning world supply and market prices. We missed the mark for crop year 1978 due to a record corn crop and stronger than expected exports. Our estimates for one year, then, are extremely tentative; and for two or more years CCC estimates become meaningless.

-- Legislation is being proposed to authorize an expanded all-risk insurance program. Termed the Farm Production Protection Act, this legislation will permit agricultural producers to select varying coverage levels on 18 basic crops nationwide by the end of FY 1980. Enactment of this proposal will eliminate many current disaster relief programs.

-- An increase in funds is requested to make better use of satellite related technology in our early warning system for monitoring world food production.

-- The "cap" on the food stamp program will have to be removed and a supplemental will be required. The reason for this is that the economy has dramatically changed since the new food stamp law was enacted. The cap was predicated on a projection that food prices would rise only 3 to 4 percent per year but food prices are now far outstripping these projections. However, to help minimize food stamp increases we are proposing new legislation which will: (1) establish fiscal sanctions for States that operate the program at unacceptably high error rates; and, (2) provide for periodic retrospective accounting and income reporting at State option. This legislation should result in a saving of $152 million which will partially off-set the program increases.

-- In addition, to offset some of the increases in other food assistance programs, especially the WIC program expansion mandated by the Congress last year, we are proposing legislation to reduce benefits under the school lunch and other child nutrition programs to those at the high end of the income eligibility scale. We are proposing savings of $528 million, through new legislation, as follows: (1) $146 million by a nickel reduction in the school lunch subsidy to middle and upper income children; (2) $165 million by

tightening the eligibility standards for free and reduced price meals in child nutrition programs; (3) $47 million by eliminating most private sponsors employing private vendors for the summer feeding programs; (4) $60 million through a new accountability system to reduce excess claims in school feeding programs; and, (5) $110 million by restricting the special milk program to schools not operating a school lunch or breakfast program, through a limitation on appropriation language.

. The most effective pest and disease control programs are adequately funded, even though there is a modest reduction proposed for a variety of reasons--reduced incidence, increased support from industry and states, user fees, ineffective means of control, single or few states benefit, and unwillingness of states and industry to share costs.

. Food safety and quality programs and issues, grain inspection and transportation problems continue to be very high priority activities. Ways of reducing costs while maintaining or improving services continue to be sought.

. A reduction is proposed in total funding for international programs:

-- This is almost entirely due to the $800 million reduction in the export credit programs. This reduction assumes continuation of strong export demand and the building of new markets for U. S. agricultural products. Also, we foresee supply being

more in line with demand, thereby reducing the need for Federal export credit assistance. Our new non-commercial risk assurance program is expected to take up any slack. We have requested an authorization of $2.2 billion for export credit, should we need it.

-- The program level for the foreign food assistance programs is essentially the same as in FY 1979. But we still need, and will propose legislation (International Emergency Wheat Reserve), to insure we can honor our food aid commitments in times of tight supply and high prices. Normally, our P. L. 480 program is sufficient to meet these commitments; however, when prices rise the P. L. 480 appropriation could be inadequate in reaching targeted tonnage levels. The government-owned food reserve would allow us to supplement the P. L. 480 program and meet our international commitment at a minimum cost to the U. S. taxpayer.

-- The cooperator program will be maintained, and the 6 trade offices to be established this year will be augmented with additional ones in FY 1980.

. Rural economic and community development funding is expected to be down in 1980, mainly due to fewer rural electrification loans ready to be made. Some reductions in loan funds for programs serving those at the high end of the income eligibility scale

are proposed, but we are implementing the new Home Ownership Assistance Program via a 1979 supplemental of $985 million and have requested a like amount for FY 1980.

Reductions in the natural resource programs are proposed.

-- The Resource Conservation and Development Program is proposed to be terminated, and Federal support for the snow survey program is to be phased down.

-- Watershed planning funds are reduced as no new plans are to be initiated in 1980. An increase in construction funds is proposed, however, with full funding for 10 new construction projects.

-- Conservation cost-share programs are proposed to be maintained at $208 million, the same level as in 1979, with $75 million for approved "Clean Water Act" projects.

-- All National Forest System resources will be provided for, but at a somewhat lower program level ($211 million, or 14% below that of 1979), due mainly to the reduction in our timber sales program based on the decision to harvest timber from high return forests.

FY 1980 funding for USDA research, extension and teaching programs, excluding non-recurring construction, will decrease slightly ($14 million or 1.5 percent) in 1980 when compared to the current estimate for 1979, with the reduction in extension and teaching funds. Within the total, there are some important changes proposed. These changes are based on an overall policy which includes the following key elements:

-- Expanding or initiating agricultural research into new and important areas such as (1) work on nitrite substitutes in pork products, (2) basic food safety research, (3) non point source pollution from water runoff from farm lands, (4) integrated pest management, (5) energy, (6) aerospace technology to develop better information on how weather fluctuations affect crop yields, (7) human nutrition, and (8) basic animal and crop research.

-- Examining all ongoing work in an effort to find ways to meet new priorities without large increases in total funding. In this respect, the budget reflects reductions in several lower priority programs such as (1) post harvest technology (marketing) research, (2) non-nutritional crops research such as cotton, (3) non-health related tobacco production research, (4) non-essential animal and natural resource research, (5) some lower priority cooperative research programs including animal health and rural development formula grants and some specific items under special grants.

-- Bringing the Federal research workforce more closely in line with what is needed to perform essential functions. The 1980 budget reflects a shift away from in-house research done by Federal scientists in Federal laboratories and towards more use of extramural contracts and grants open to all scientific institutions. This approach is designed to help keep the size of the Federal workforce down and to provide greater flexibility to meet changing research needs. It will enable us to tap the

tremendous non-Federal scientific expertise to a greater extent than in the past.

-- Devoting available budget resources to research programs rather than facilities. The budget includes no new funds for research facilities. Funds will be used to support working scientists rather than construction of buildings. Present facilities and those already under construction are more than adequate to house the Federal research workforce.

In summary, on an overall basis, research and extension for crop production and protection is up $7 million (3 percent); for animal production and protection down $5 million (4 percent); for processing, storage, distribution, and marketing down $12 million (14 percent); for human nutrition up $7 million (8 percent); and for soil and water resources up $3 million (4 percent).

Mr. Chairman, you also asked me to look beyond FY 1980 to possible new initiatives over the next five years. The authorities contained in the Food and Agriculture Act of 1977 and the Emergency Agriculture Act of 1978 provide the necessary flexibility to offset weather-related shocks to national and world food production.

Farmer-owned reserves have been established, so when food production declines due to adverse weather patterns, they are available to fill the gap. The food aid reserve will complete our reserve authorities

and permit us to honor our food aid commitments when supplies are tight.

When weather is abnormally favorable excess production will be placed in reserve (if the quantities in reserve have been drawn down) or production in the subsequent year will be curbed through the set-aside and diversion authorities.

Passage of the crop insurance measure will provide protection against natural disaster, to complement the authorities now in existence to protect producers against economic disaster.

With these authorities in place we can expect foreign and domestic demand for our products to continue to grow at a relative rapid pace. An adverse weather year will mean higher farm prices and low budget outlays, but reserves will prevent the sharp reductions in demand that followed the extreme price rises in the early 1970's.

Over the past decade, perhaps no other feature of our agriculture has been so apparent as the striking increases recorded in the value and volume of our agricultural exports.

In 1969, a total of 46 million metric tons of our farm products went overseas, valued at less than $6 billion. This year, just months after the world has harvested its largest crops on record, our farm exports are expected to total about 122 million metric tons, worth more than $30 billion. This represents a 5-fold gain in value and more than 2-1/2 times the volume in only 10 years.

During the next five years, we expect this unbroken trend of increased reliance by the world on our agricultural production to continue, especially for feed grains and oilseeds, the products used in the drive to increase meat production and to improve the diets and nutritional status of people.

Given this increased challenge to produce and deliver a growing quantity of high quality food products, we must ask ourselves if we will have the capacity to supply the required quantities.

Some good farm land is being lost to urbanization, to development and often, to poor farming practices. We will have to address the question: should good farm land be reserved for food production purposes only? Some land not presently used for farming purposes is being brought into production. However, doing so requires large capital and energy investments, and frequently means increased conservation measures must be implemented. The importance of the national soil and water conservation plan now being developed under USDA's leadership cannot be over-estimated.

Water use and conservation policies and programs will require greater attention. Agriculture is already the nation's biggest user of water. Food and fiber production currently uses about 160 billion gallons a day--about half of all the water withdrawn from surface and ground water sources in the United States or about 80 percent of all water from these sources consumed by human activity.

The use of water in agriculture has increased steadily. However, several regions of the country are depleting ground water reserves at rates faster than the rates at which they are being replenished. And as the water table drops, irrigation becomes increasingly more expensive.

In some regions of the United States, available water is already fully appropriated, limiting the expansion of agriculture. In these areas, any increase in use of water for other purposes--population needs, wildlife, recreation, navigation or energy development--would mean water taken away from agriculture, and very likely, reduced productivity.

This nation has, in my view, been well served by our family operated farming system. However, recent events are cause for concern about the future structure of our agricultural system. The very forces which have made the American family farm system strong may eventually overwhelm it. The drive to constantly produce more efficiently through the adoption of technology and more mechanization leads to larger units which are required to realize economies of size. These larger units, rewarded by a tax structure which accrues bigger benefits to bigger business, lead, in turn, to higher prices for land and cause other problems for our farming system.

As farming units seek to increase their sizes, the land market becomes intensely competitive. Older farmers, who purchased land when prices were relative low, can spread the cost of new land over their entire acreages and usually save on the cost of other agricultural inputs which can be used more efficiently on the larger acreages. They can,

therefore, afford to bid more for a given parcel of land than can a smaller farmer whose costs per acre are higher or a younger farmer whose land was bought at higher prices. The enormous capital requirements facing the new entrant into farming presents a formidible barrier.

This barrier becomes greater with rapid land price escalation. During the Seventies, we have seen land prices double in most parts of the country; in some areas, they have tripled. With this occurrence, we have entered an era where farm land has more value as an investment than as a productive asset. And with land so profitible an investment, there has been increasing interest by non-farm sources to invest.

Outside investment--particularly foreign investment--has become an issue of intense national interest. We believe that foreign investment has been minimal and that it presently poses no major immediate threat to family farm system, but the attractiveness of land ownership solely for investment purposes clearly has stimulated an abnormal interest in farm land by domestic interestes and this does pose a threat to the family farm system.

It has always been the goal of the Congress and of this Department to preserve the family farm system which has characterized and contributed so greatly to our agricultural preeminence. I have briefly identified several forces that pose threats to our agricultural system. We have a joint responsibility to assess the implications of these forces and

to develop policies and programs that will better meet the needs of those we and an increasing share of the world will rely upon to provide our food and fiber.

Mr. Chairman, I will be pleased to respond to your questions.

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